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Canadian Economic outlook
for 1956

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For Discussion with Inter-
Departmental Committee
on Forecasting

Department of Trade and Commerce

Economics Branch

CANADIAN ECONOMIC OUTLOOK

FOR 1956

(Draft Report)

GROSS NATIONAL PRODUCT

INCLUDING FARM INCOME
REVENUE FROM
BY-PRODUCTS

March, 1956.

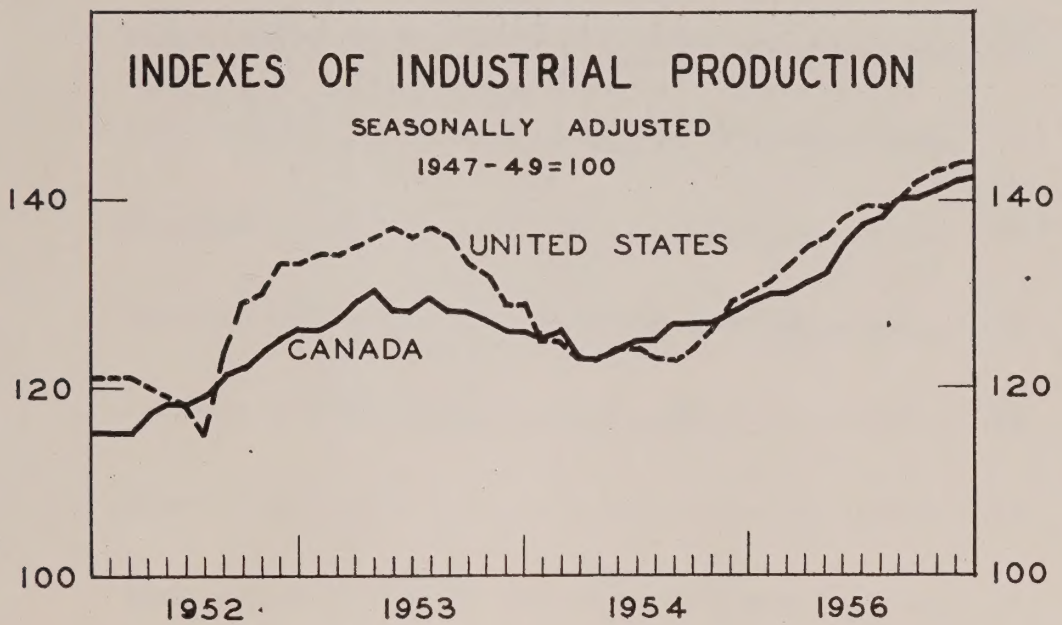
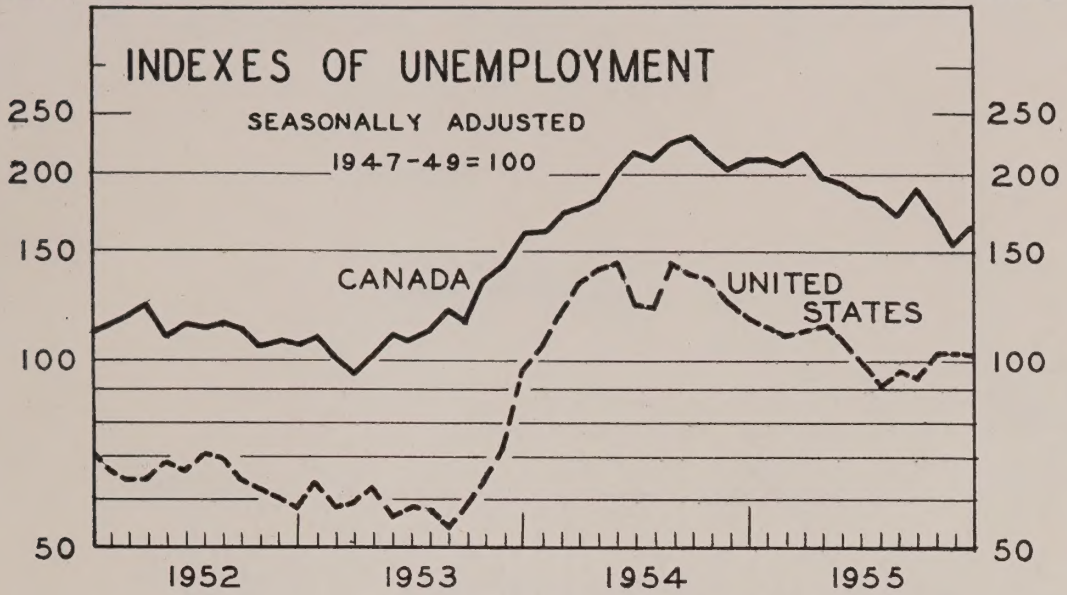
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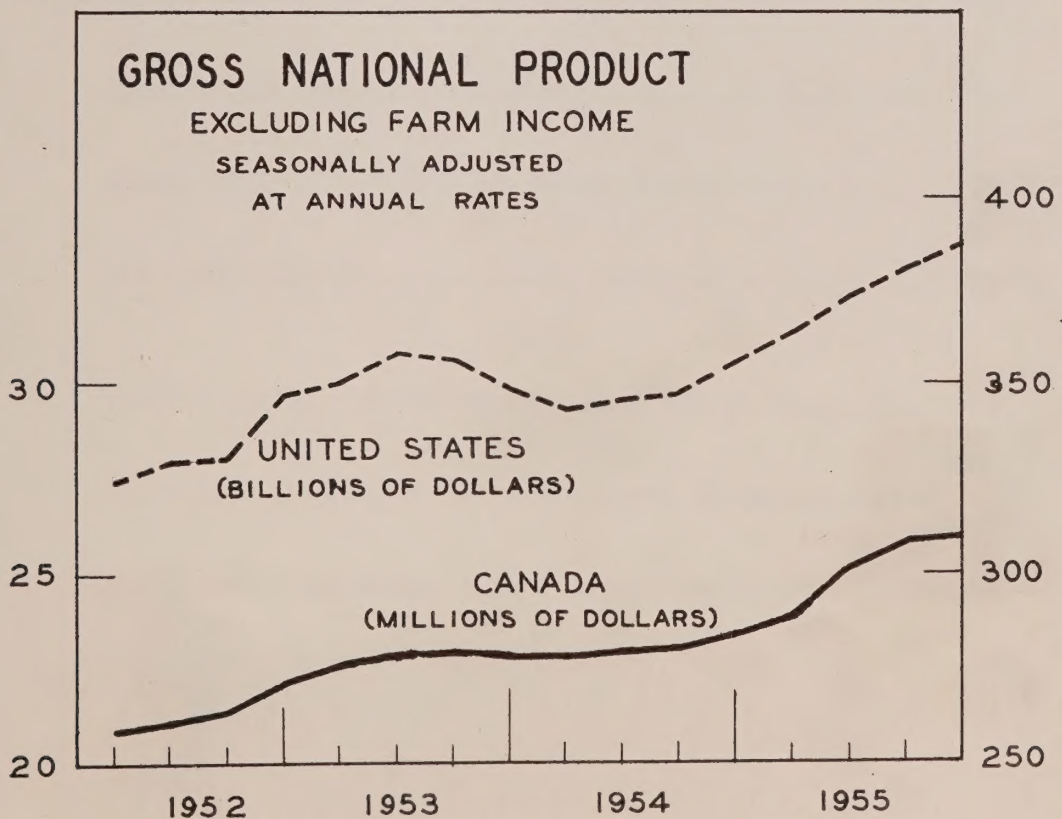
RATIO SCALE

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SUMMARY

During 1955, the recovery in business conditions which had begun in the previous year, accelerated and became more widespread. The increase in physical output has been markedly greater than in any like period within the past decade, but is probably comparable to recoveries from previous mild recessions. The upswing during 1955 was to a large extent, devoid of those excesses and maladjustments which are often associated with so vigorous a recovery. Also, at the end of the year, most of the key indications of general activity were still pointing upwards. Such considerations suggest that the current expansion still has some time to run.

Now that there is little slack left in the economy, and with market demands continuing to rise, signs of strain are coming more into evidence. In the current upswing to date, price increases have been confined mainly to industrial materials. However, pressure for higher wage rates is now gathering momentum. This suggests that price increases may soon become more widespread even though plentiful supplies of agricultural products will continue to temper inflationary tendencies. A number of industrial materials are in short supply and throughout a broad segment of industry, delivery dates are lengthening. Corresponding pressures have appeared in the financial market, with general increases in interest rates and pronounced increases in short-term rates over the last year. The strength of domestic demand is also reflected in imports which since the late summer of 1955, have held at levels substantially above previous peace-time peaks. The resulting growth in the imbalance of Canada's merchandise trade has contributed to the largest balance of payments deficit of the post-war period. This current account deficit has been counterbalanced by a large capital inflow accompanied, nevertheless, by a moderate decline in the value of the Canadian dollar to approximate equality with the United States dollar.

Current prospects indicate further increases in 1956 in all major segments of demand. Capital good requirements will be particularly strong, reflecting a new upsurge of expansion in business investment and substantially higher outlays by provincial and municipal governments. It is, in fact, doubtful whether this year's programme of intentions, involving outlays about one-fifth above actual spending in 1955, will be realized, bearing in mind that shortages were already developing last fall. It is quite possible that the trend of new housing activity will level off and perhaps turn downward during the year, depending largely on the availability of mortgage funds. Restocking of business inventories may constitute a further expansion element during 1956. Remarkably little build-up of physical inventories has occurred since the last period of liquidation in 1954. Since that time, sales have risen substantially and with further increases in prospect, there is considerable evidence that current inventory holdings are regarded as insufficient by the business community. Further increases in exports are probable, due mainly to new capacity in such items as petroleum, iron ore, uranium, pulp and paper and certain base metals, and to a substantial pick up during the recent months in orders for wheat. These prospective increases in demand, in conjunction with currently high levels of income and employment, should result, in turn, in a continuing rise in consumer expenditure.

These demand strengths suggest a continuing increase in overall national output. In the accompanying tables, it is estimated that gross national product will reach $\$28\frac{3}{4}$ billion in 1956, 8 per cent above the level of the previous year. Higher prices would account for part of this rise, although the price increase allowed for is fairly moderate, amounting to only 2 or 3 per cent. This estimate assumes the continuation of a considerable overall measure of restraint in buying and investment habits. Should excesses develop, a more pronounced increase in prices and gross national product would probably result.

These developments will be accompanied by fairly general income increases. Corporate profits have already increased 35 to 40 per cent from the fall of 1954 and continued high levels are expected. Higher wage rates and a further increase in employment will probably result in the continuation of a steady upward trend in labour income. While the net income of farmers will depend largely on the outcome of this year's crops, overall cash receipts should rise as deliveries of grain increase in response to the current upturn in exports.

The general expansion in economic activity has been reflected in the labour market. The increase in the number of persons without jobs and seeking work from the summer low in 1954 to the winter peak in March 1955 was less than the usual seasonal increase. Therefore, apart from seasonal factors, unemployment has been declining for roughly a year and a half. However, the number of persons without jobs and seeking work has continued above the average levels of the post-war period, 1946 to 1953. In this earlier period, a variety of special factors contributed to unusually low levels of unemployment, particularly the insulated position of secondary manufacturing from more normal international influences. With the disappearance of such special factors, higher levels of unemployment have resulted. The proportion of the labour force without jobs and seeking work is expected to be about 3.5 per cent in 1956, which is a little lower than in 1955.

The exceptionally high level of imports during the last six months tends to emphasize the continuing vulnerability of domestic producers to competition from foreign suppliers. In the present strong market situation, Canadian producers are able to increase sales and profits even though their share of the overall market may be declining. Prospects of a continuation of favourable world conditions should provide further opportunity for Canadian secondary manufacturing industries to adjust to the more competitive world conditions now prevailing in highly manufactured goods. Nevertheless, any slackening in the present firm market trend would probably have serious adverse affects in a number of Canadian manufacturing industries.

PROSPECTS IN THE UNITED STATES

In the United States, the rise in economic activity has been less pronounced in recent months and the level of industrial production has remained about stable since November. In some of the more buoyant parts of the economy, demand has been pressing against available capacity for some time and by the end of the year, declines in certain fields of activity, particularly housing and motor vehicles, has slowed the overall advance.

An important expansive factor in the United States economic outlook is the prospect for business investment. During 1955, business spending on plant and equipment increased sharply, reversing a previous downward tendency that had continued during most of the two previous years. Higher sales had brought many companies close to capacity operations once again. This, together with sharp increases in corporate profits, provided incentive for further expansion. Larger undistributed profits and depreciation allowances have facilitated internal financing. Reflecting these conditions, building contract awards and new orders for durable goods have been rising sharply and in all likelihood the results of the survey of investment intentions for 1956, shortly to be released, will indicate a substantial increase in capital outlay. Indication of further strength in business investment is of particular significance insofar as it is quite unlikely that any general economic weakening could develop if business investment was expanding.

Many statements by American economists over the last several months have emphasized the role of cars and houses as major elements of weakness. Such statements have tended to exaggerate the importance of these two sectors, which amounted

to only 8 per cent of G. N. P in 1955. It is also worth noting that declines in housing and in car production, which have been operating as depressing influences for some months now, are not likely to continue throughout 1956. After a very sharp expansion during 1954, housing starts reached a peak early in 1955 and have been declining since. Much of this change appears to have resulted from increased tightening in mortgage funds, rather than any real difficulty in selling. Residential construction activity reached a peak in the third quarter of last year, and has declined since. More recently, however, some evidence of increased residential construction awards and a return to a maximum 30 year mortgage would suggest that this recent decline in residential construction activity will not continue for long.

Car production and sales reached new peaks in 1955. After the introduction of the new models, excessively high production levels contributed to a build-up of dealer inventories. Towards the end of last year, production was cut back and is currently below last years levels. As the sales of current models were below expectations, it is likely that the model change over will be made earlier again and more extensive changes are expected. It is quite possible that car production will be a stimulating factor once again before the end of the year.

Thus far, there has been little indication that cutbacks in cars and housing have had any general adverse effects on activity in other industries. Recent increases in production have been more moderate and less diffuse than last summer. However, it is rare that increases have been as widespread and pronounced as occurred last year. More cross-

currents and conflicting tendencies are currently present but these are regarded more as reflecting adjustments in particular sectors than heralding a more general reaction. It is expected that the underlying expansive factors will be more clearly evident before the end of the year. If the widely heralded decline in activity does not develop, a renewed wave of business confidence could appear before the end of the year. This is a possibility that should not be dismissed lightly, as it has important implications for the Canadian economy where strong market trends already prevail.

Major Factors in the Canadian Recovery

During the 1953-54 adjustment period and subsequently in the early stages of expansion, firm trends in residential construction and in consumer expenditure were important sustaining influences on general activity. Sustained demand in these sectors seems to have been due partly to the continuing effects of the sharp increase in real wage income which had occurred previously and partly to the increased supply of residential mortgage funds and lower down payments. Meanwhile, export markets (except grains) began to strengthen during 1954 due to continued expansion in Europe and recovery in the United States. Then during 1955 a renewed expansion in business investment took place, the third major upsurge in spending by the commodity producing industries since the end of the war. This development has provided a very important element of strength to the general short-term economic picture.

It is significant that this new period of expansion came about largely as a result of increased spending by the private sector, without recourse to any major innovations in government policies in Canada or in the United States. Unemployment benefit payments increased as employment declined

and tax collection fell off in response to lower incomes, reflecting the built-in stability of present fiscal systems. Certain tax cuts were made but these were moderate relative to the increase in private spending that occurred. In addition, monetary policy was such as to both encourage and facilitate the expansion in private spending. On the whole, however, government action played a much smaller role in the current period of expansion than some earlier periods, the post-World War period being an important illustration.

Another significant point about the present period of expansion in Canada is the moderate role of inventory accumulation. Some increase in the value of inventory holdings has occurred, especially in the fourth quarter of 1955, but a very significant proportion of this has been associated with price increases. Consequently, no significant build-up in physical stocks has occurred in spite of sharp increases in production and sales.

The net effect of these forces of recovery has been the sharpest increase in physical output that has taken place during the whole post-war period. During 1954, a moderate decline in total output occurred while increases in the labour force and productive capacity were taking place. This made possible the very sharp increase in the volume of output during 1955. Further discussion of these developments is contained in the Appendix, where the patterns of recession and recovery in the United States and Canada are compared.

Gross Domestic Investment in Durable Physical Assets

During 1955 business investment rose sharply, reversing the decline of the previous year. At the same time, residential construction continued upward for the third successive year. The increase in gross domestic investment in durable physical assets from the first quarter to the fourth quarter of 1955 seasonally adjusted, is roughly 20 per cent. This, together

with strong demands in other sectors has contributed to increased pressure on productive facilities. Selective shortages and price increases have occurred in spite of very sharp increases in production and imports of many of the materials affected. The survey of investment intentions and other evidence indicates that this tightness of supply will continue to be acute during 1956.

A major factor in this increased pressure on resources has been the changing tempo in investment for business purposes. Outlays for new residential construction reached a peak of \$1.8 billion in the third quarter of 1953, but thereafter underwent a moderate decline to \$1.6 billion by the first quarter of 1955. New machinery and equipment underwent an even greater contraction over the same period, from \$2.2 to \$1.6 billion. These declines reflected the completion of certain larger projects, bad weather for construction in certain regions in 1954, and a sharp decline in farm implement sales. The recovery since the first quarter of 1955 has been fully sufficient to offset the decline of the previous six quarters.

This increase in business investment reflected the strong demand situation of last year, with many companies operating at capacity. Furthermore, the sharp increase in profits after taxes has provided both greater incentive and increased internal sources for financing larger investment expenditures. These developments were reflected in a greater than seasonal increase in contract awards for commercial and industrial purposes in the spring months of 1955. In the last half of 1955 the level of contract awards (seasonal variation apart) in this sector, was about 50 per cent above the average rate of the previous 18 months, and was more than 10 per cent higher than the previous peak realized in the first half of 1951, when the figures were inflated by contracts related to the defence program and some of the very large resource development projects.

The industrial composition of the 1956 program as reflected in the survey of investment intentions shows further large increases in mining and petroleum, utilities (central electric stations, steam railways, and other transportation sectors) and in provincial government expenditures. Within manufacturing the increases are in paper products, iron and steel, non-ferrous metals, and chemicals. Investment in trade is expected to be maintained at last year's high level. The total of non-residential construction intentions is about one-fourth higher than actual work put in place during 1955, and the intentions for machinery and equipment are one-fifth higher than what was achieved last year.

Bearing in mind that problems of supply were becoming increasingly important last year, it seems quite unlikely that increases in investment of this magnitude can be realized. Cement, bricks, and various types of steel products were acting as selective bottlenecks last fall, and a program of the size envisaged in the intentions survey would make this problem of materials more acute and more widespread. Other limitations are likely to appear in the form of shortages of certain occupational groups in the labour market, and tightness of funds in the capital market. Even with these limitations a fairly large increase in investment seems attainable. It does not seem likely that an increase of more than 10 per cent in either cement or steel is likely to be obtained from domestic sources in 1956, even under favourable circumstances. Increased reliance on foreign sources of these key materials had already become evident in 1955 and this is likely to become more pronounced in the current year. The extent to which the survey intentions can be achieved will partly depend on the extent to which the increased requirements for both materials and funds can be met from foreign sources. The increase shown in Table I, based on these factors limiting the extent of the increase, is somewhat

less than what is shown in the published survey of investment intentions, as summarized in Table IV in this report. The increase in non-residential construction and machinery and equipment combined that has been allowed for is 19 per cent, with part of this being the price increase anticipated. This is still a fairly marked increase over the rate prevailing at the end of 1955.

It is against the background of the changed tempo of business investment and increased pressure on materials and finance that one should look at the prospects for housing. During 1951 residential construction underwent a sharp decline as part of the process of shifting resources to defence and essential investment projects. During 1951 housing starts totalled less than 65 thousand, but the subsequent expansion in residential construction brought the total in 1955 to 138 thousand or more than double the number four years earlier, and the annual rate during the late spring and early summer was even higher. The value of new residential construction increased from \$672 million in the first quarter of 1952 to over \$1.5 billion in the third quarter of 1955 (seasonally adjusted at annual rates) and this is very largely an increase in physical volume. This increase in residential construction has been associated with a very sharp increase in mortgage debt. At the end of 1951, the mortgage debt outstanding (of the personal sector to other sectors) is estimated at \$1.6 billion, and this had increased roughly $\$3/4$ of a billion or about 50 per cent by the end of 1954. The increase was even sharper during 1955, amounting to perhaps \$400 million. It would be quite unlikely that an increase of this rate could continue in the face of strong demand for funds for other purposes.

The increased demand for funds for other purposes became more pronounced as 1955 progressed. In December, certain of the larger chartered banks began to curtail sharply their

new mortgage commitments. Furthermore, during recent months approvals under M. H. A. have dropped below the same period last year. It is not clear how far the extent of the curtailment will go, or how long it will continue. The estimate for residential construction is based on 128 thousand starts in 1956, a fairly important drop from the seasonally adjusted annual rate of roughly 150 thousand reached in some of the summer months of last year. A record carryover and a moderate increase in construction costs more than offset this decline in starts in the value of residential construction put in place, however. A decline in the value of work put in place during the summer months seems quite likely in view of current tendencies. This involves a continuing shift from residential to business spending as 1956 progresses. Even with this shift in the composition of the program, it is unlikely that the intentions of the organizations replying to the investment survey can be realized during 1956.

Merchandise Exports

During the period of moderate recession in North America during 1953 and 1954, economic expansion continued elsewhere undiminished. The expansion in Europe was particularly important for Canada, as it was associated with strong sales for primary products (except grains) to the United Kingdom and most countries in Eastern Europe. The increase in non-grain exports to markets other than the United States has continued without interruption since the first half of 1953 (in physical volume apart from seasonal factors) and has amounted to roughly one-third. During 1955, however, there is some evidence in the United Kingdom and in some other European countries of a slowing down in the rate of increase in domestic production and of some acceleration in the rate of inventory accumulation. Under these circumstances, demand for industrial materials from Canada may be somewhat less buoyant. This means that further increases

in 1956 in exports of this type will depend primarily on conditions in the United States.

The changes in exports over the last few years have been heavily influenced by the pattern of recession and recovery in the United States and by the changed pattern in world grain markets. Canadian exports of grains reached a peak in 1952 and early 1953, due to a combination of unusually favourable circumstances. Since then, larger crops in all countries have led to lower purchases by the traditional importing countries, and increased sales by some of the exporters. Canadian exports of grain have continued below the high levels of 1951 to 1953, but are roughly in line with a longer historical standard. Meanwhile, overall exports to the United States reached high levels early in 1953, and then underwent a moderate decline until about the middle of 1954. The increases in non-grain sales to Europe were not sufficient to offset the declines in grain sales, and in exports to the United States. The result was an overall decline of about 15 per cent in total exports in the two year period ending in the summer of 1954. Since then the recovery in non-grain exports has been quite sharp, but it has brought the total level of exports in volume only slightly above the earlier peaks when grain exports were more important. Over a longer period, the overall volume increase has been moderate, with current levels about 20 per cent higher than 1948. This is a much smaller increase than has occurred in either domestic production or imports. This pattern is very similar to earlier periods of rapid domestic expansion, such as the decade and a half before the first world war.

Current conditions indicate a fairly strong export market for Canadian products in 1956. For many lines, no marked change in export volume can be expected, however. Domestic producers have been operating at capacity production for some time now, and producers' inventories have been reduced in certain

lines. Further substantial increases are indicated in such items as petroleum, iron ore, and uranium, with more moderate increases in copper and newsprint. Price increases have also occurred in metals and forest products, and this will contribute to higher value of exports in the current year. Recently there have also been indications of some recovery in wheat exports. A significant increase in orders for future delivery has taken place, and the severe winter in Europe has affected the prospects on the crop sown last fall. The increase in wheat exports expected will more than offset lower sales of flour and coarse grains. In total, merchandise exports are expected to increase about \$400 million or 9 per cent in 1956. Apart from wheat, a very significant proportion of the increase will go to the United States.

Government Expenditure on Goods and Services

Provincial and municipal expenditures on goods and services have increased every single year for more than a decade and are now approaching 10 per cent of total output. During 1953-54, the increases at the provincial and municipal level were sufficiently important to roughly offset the declines in defence expenditures that occurred at that time. A further rise is expected in 1956, particularly in capital expenditures by provincial and municipal governments.. Proposed expenditure on roads by certain provincial governments is up considerably. Larger outlays by municipalities for roads and ~~sewers~~ is also indicated. Increases in payrolls and other current expenditures can be expected at provincial and municipal levels in 1956.

During 1955, defence expenditures increased moderately. This was associated entirely with increases in military pay and allowances and various administrative expenses. Defence procurement expenditures, on the other hand, continued to decline. The peak procurement expenditures of \$1,235 million occurred in the fiscal year 1952-53, and the extent of the drop by

calendar 1955 was \$260 million or a little more than 20 per cent. Defence orders placed during 1955 were lower than any year since before the Korean war, and some reduction in outstanding defence orders took place during 1955. The change in procurement expenditures during 1956 is expected to be moderate however. A further decline in aircraft expenditures is expected, with more modest declines in shipbuilding, guns and ammunition. These declines are expected to be offset by increases elsewhere particularly in electronics and construction. The moderate increase in defence expenditures shown in Table I would thus come entirely from increases in military pay and administrative expenses, which have been the expansive portion of defence expenditures for nearly three years.

Federal government expenditures apart from defence have been relatively stable for some time, apart from the last general salary increase. Federal non defence construction expenditures are expected to undergo little change again in 1956.

Business Inventories

During the fall months of 1955, business inventories appear to have been roughly equal in volume to the levels reached in the latter part of 1953. As the period of inventory liquidation in 1954 was short and not too pronounced in magnitude, it would not appear that total inventory levels were too far out of line during 1953 and 1954. Since that period, however, aggregate demand and production have increased quite sharply, reducing the ratio of inventories to sales fairly significantly. Current inventory levels are evidently lower than desired by businessmen, in the light of prevailing sales levels. Some increase in the book value of business inventories began in the latter part of 1955, part of which is associated with higher prices.

As the rate of business inventory investment is traditionally very volatile, it can affect the short-term changes

in economic activity quite significantly. The extent and timing of the expected increase in business inventories will be a crucial factor in the economic situation for the coming year, and is likely to have an important influence on domestic manufacturing and imports and the extent of short term financial requirements of business firms. It is probable that the current period of inventory accumulation will be fairly long, in view of the vigour of the increase in final demand that has taken place and with strong evidence of further increases to come. Furthermore, the recovery was well under way before businessmen realized that their inventory holdings were below a desirable level. In such circumstances, involuntary accumulation of stocks often continues after sales have levelled off. This phase of the build-up, however, may still be some way off. It is quite possible that the accumulation in particular quarters could exceed $\$3\frac{3}{4}$ billion, which will have an important bearing on current economic activity. Providing business optimism continues moderate and restrained and the financial environment continues to limit excesses, the inventory build-up could be a gentle and continuing stimulant throughout 1956. The accompanying tabular material provides for an increase of \$700 million in business inventories, part of which will be associated with further price increases, and the annual rate of accumulation would be larger in particular quarters.

Consumer Expenditure

Over the last four years, there have been very pronounced increases in real income per person. The increase has been particularly marked in the real incomes of urban workers. From 1951 to 1955, for example, average weekly earnings in real terms for the nine leading industries increased 20 per cent. This is a very significant increase for such a short period. It has shifted many families up into higher income brackets and permitted many more of them to purchase homes, cars and other

large durable items. At the same time, personal savings have been sustained at a high rate. The growing tendency to home ownership and larger purchases of durables has been reflected in increased mortgage debt and consumer credit outstanding and associated carrying charges.

These increases in purchasing power have tended to come in waves. After little change, or even some declines, during the early post-war years, marked increases developed in 1952 and early 1953. This was reflected in the significant increases in consumer spending of that period. During late 1953 and early 1954 real incomes did not keep pace with the growth in population. Another period of renewed marked increases in purchasing power has since developed. In 1955, personal income showed the largest per capita gain in real terms of the post-war period and the increase in per capita consumer expenditure in 1955 was roughly 4 per cent.

With evidence of this renewed advance in purchasing power, and strong indications of further increases in 1956, a continued further expansion in consumer expenditure seems assured. A further rise in the production and sales of automobiles now seems likely. A strong market also is indicated in furniture and certain other durables. Sales of television sets, however, may not meet last years' levels now that so large a proportion of the potential market already own sets. Sales of semi-durables and perishables and also outlays for services are expected to continue the increase that has been going on during 1955.

Most of the rise in consumer expenditure is expected to be in volume. However, higher prices for rents and various services and probably also for a number of commodities will add to the overall dollar outlay. It seems probable that a further rise in per capita expenditures in real terms will be realized, in addition to the increase that has already been

taking place during 1955. Little change is expected in personal savings for 1956.

Implications of Anticipated Demand Strengths

The implications of the demand factors discussed above seem sufficiently important to make some general observations at this point. Thus far the recovery in economic activity has taken place with an element of caution still pervading much of the business community in Canada. The indications on the demand prospects covered above suggest continuing strength in almost every sector, particularly business investment. Already these strong demands are being felt in shortages of selective materials, more widespread price increases, indications of pressure in the financial sector, and a pronounced upsurge in imports. It would appear as if any economic problems in Canada during 1956 will be associated with a continuation of these developments, all of which are symptomatic of the underlying demand strengths. If businessmen were to drop the ~~elements~~ elements of restraint which have been present, the demand pressures could become even greater than what has been allowed for in this document.

Should excesses develop out of the current situation the resulting dislocations and price pressures are customarily followed by a later period of reaction. Usually the later stages of such a boom are associated with a high rate of business inventory investment and rapid increases in private debt, and when such rates of increase can no longer be maintained a period of recession ensues. There is another factor in the present Canadian situation which can add to the strains likely to be experienced in an adjustment period. In the present phase of Canada's development, favourable world economic conditions result in concentration of world demand on resource industries and related activities. As a consequence, costs and prices

in Canada tend to increase more rapidly than in other countries. The resulting weakening in the competitive position of other more vulnerable industries can create additional problems should world economic conditions later deteriorate.

These aspects of readjustment to excessive inventory accumulation were important during the 1953-54 recession in North America, although the decline in defence procurement expenditures was also a dominant influence at that time. In Canada, an additional development was the readjustment in secondary manufacturing to more competitive foreign markets as reflected in import competition. The possibility of such excesses developing again should not be lost sight of, although developments thus far would appear to be quite soundly based.

The period of expansion thus far has been associated very largely with increases in real output and employment. The change in final product prices has been negligible, but there has been increasing evidence of selective price increases as 1955 progressed. It is very likely that this tendency will become more widespread with more upward movement in the general price level. Correspondingly, continuation of the rapid increase in physical output is quite unlikely as supply factors become increasingly important in limiting further increases. On balance, Gross National Product should continue to move upward but with volume increases assuming less and price increase more importance than was the case last year.

A further symptom of a strong domestic demand situation is a greater reliance on foreign sources of supply. A sharp increase in import volume has already occurred over the last 18 months, and a further rise can be anticipated if the strong demand conditions now indicated materialized.

Prices and Wages

The more comprehensive price indexes show little change for 1955 compared with the previous year. The consumer

price index for 1955 was almost identical with the monthly average for 1954 and the wholesale price index averaged only one per cent higher for the year as a whole. This is far from a complete picture of recent price changes, however. For one thing, substantial divergences in price movements among broad commodity groups has continued. Agricultural prices, for example, have continued the downward movement that began during 1951, but this trend has been more than offset in the general price level, by increases in other groups. Another important price development is that the decline in the wholesale price index from its post-Korean peak was reversed during the last year and a half. Price increases began to appear first in residential building materials, and then in a number of mineral, forest and chemical products. Initially, the price increases were selective and reflected the areas of demand which showed strength in the earliest stages of the revival. As the year progressed, the price increases became more general and by December the general wholesale price index had increased more than 3 per cent over its low point reached in October 1954. The index for industrial materials has increased by 10 per cent in fifteen months, with the increases for particular groups being even more striking (non-ferrous metals for example.)

One of the very real questions in the outlook is the pattern of price changes during 1956. This will depend very much on economic conditions in the rest of the world, and particularly on developments in the United States. Should conditions turn out stronger than most American observers have been expecting, further impetus to more widespread price increases in Canada will result. In these circumstances a rise of 2 to 3 per cent in the general price level of all final goods and grains appears probable. Estimates in Table I allow for a price increase in this range. A factor contributing to the moderate nature of the overall price increase is the probability of some further weakening in

in agricultural products, particularly in food products. The declines are likely to be less pronounced than last year, however, and will be counterbalanced by higher processing costs.

During 1954, the upward trend of wage rates slowed perceptibly. Apart from seasonal factors, average hourly earnings declined slightly for a period of several months. Wage rate increases continued to be moderate early in 1955, due in part no doubt to the less favourable employment situation prevailing at the time during the winter months of last year. Since the spring of last year, wage rates and hourly earnings have shown a stronger upward trend. Over the period from October 1953 to October 1954, 34 per cent of the employees in a sample of collective agreements obtained no wage rate increase. During the year ending October 1955, the proportion obtaining no increase fell sharply to 13 per cent, but the increases granted tended to be fairly moderate (the most common increase being between 5 and 10 cents an hour). In total, the increase in average hourly earnings in 1955 relative to the previous year was 2.6 per cent, the smallest of any of the post-war years. There was growing evidence of renewed wage pressures developing as the year progressed, however.

For 1956, upward adjustment in wage rates are likely to be much larger than in the two preceding years. A fairly strong labour market is assured in the light of the strength of demand and shortages of some types of labour have become more important. Furthermore, very sharp increases in corporate profits have taken place and this is bound to increase the demands for, and reduce the resistance against, larger and more widespread increases in wage rates. Although requests for fringe benefits will continue to be important, it is evident that more emphasis will be placed on basic wage rate adjustment.

The renewed upturn in basic material prices and in wage rates have implications for the cost picture in many industries within the manufacturing sector. Through 1954 the normal improvement in output per man hour was, in most cases, probably sufficient to offset the moderate increase in wage rates. As 1955 progressed, labour costs per unit of output appear to have turned slightly upward, but with the recovery in sales, profits have increased very sharply. During 1956, increases in wage rates are likely to exert greater pressure on costs. Instances of increased prices in manufactured products arising from higher costs are likely to be much more prevalent during 1956.

Imports and Balance of Payments

Merchandise imports into Canada usually reflect the changing tempo of domestic demands, particularly inventory investment. Developments in 1954 and 1955 provide another illustration of the volatility of movements in Canadian merchandise imports. From a peak in the second quarter of 1953, seasonally adjusted imports dropped about 15 per cent to a low in the third quarter of 1954. Imports then started to move upward and by the fall of 1955 had increased by about one-third. As the change in exports was more moderate, the merchandise deficit for 1955 was larger than in 1954, with the increase being particularly marked in the last half of the year. These changes in merchandise trade, together with a greater increase in payments than receipts on invisible items, contributed to the largest balance of payments deficit of the post-war period. However, this was roughly matched by a larger capital inflow, particularly in the latter part of 1955, leaving the total of gold and U. S. dollar holdings roughly unchanged.

The continuation of a fairly firm demand situation in 1956 will probably entail a further rise in import levels. The large investment program will be reflected in high imports of such items as machinery and parts, electrical equipment,

structural steel, pipe and other building materials. Higher sales of automobiles, furniture and household appliance sales would also result in more imports. Furthermore, the renewed build-up of business inventories expected will undoubtedly be reflected in high imports of a wide range of products, including both industrial materials, partially processed goods, and more highly finished products. These influences are already apparent in the high import levels of recent months and will probably remain in evidence during the present year.

In the estimates for 1956, it has been assumed that merchandise imports will increase more than exports. The change in receipts and payments on invisibles are also expected to operate in the direction of an increased balance of payments deficit. If conditions develop as expected this would result in the largest balance of payments deficit of the post-war period, amounting to close to \$1.0 billion. In the last 7 or 8 months, the capital inflow for direct investment and increased security issues abroad have played a major role in financing the rising balance of payments deficit.

Gross National Product and Income Distribution

The demand pattern discussed above and summarized in Table I would indicate a further increase in Gross National Product and in each of the expenditure components. Business investment and inventories are both expected to provide important elements of strength and further increases in exports are envisaged. The accompanying estimates allow for an increase of roughly \$2 $\frac{1}{2}$ billion in G. N. P. Perhaps 2 or 3 per cent of this would be attributed to higher prices, but most of the increase would again be associated with increases in real output. Part of the increase shown in the book value of business inventories would be a result of the increased costs anticipated.

It should be noted that a strong upward trend in total output continued throughout 1955. The fourth quarter level of gross national product (seasonally adjusted at annual rates) was \$27.4 compared with \$26.6 for the 1955 total and a further

increase is indicated for the first quarter of 1956. It is expected that the trend will continue upward for the balance of the current year, and an average increase of about \$500 million a quarter is allowed for in Table I. There is no evidence available to indicate any special pattern in the quarter to quarter increases that might be anticipated over the year. Some variability in the rate of increase is likely, depending on the timing of the expected inventory build-up (traditionally a very volatile factor in quarter to quarter changes.) However, the estimates involve a G. N. P. approaching \$30 billion by the end of the year, which may be compared with the 1953 level of roughly \$24.5 billion. Furthermore, as has been indicated in several earlier sections, this assessment assumes that the demand factors continue to be fairly restrained. It is a type of situation where excesses could develop, however, and should such elements become cumulative, increases greater than have been provided here could occur.

The general strengths anticipated are expected to appear in nearly every income category. By the end of 1955, the monthly estimates of labour income (seasonally adjusted) were nearly 6 per cent above the average for the year. Employment is not likely to increase as sharply as in 1955 but on the other hand, larger increases in wage rates are expected. In the light of these factors, an increase of \$1.2 billion or 9 per cent in labour income is provided for in Table I.

Corporate profits have undergone a very sharp increase from the low point reached in the recession. The increase from the third quarter of 1954 to the fourth quarter of 1955 appears to have been about 35 or 40 per cent, reflecting the tremendous volatility in this category. What will occur now will depend on the interaction of demand and higher costs (as reflected in profit margins and sales). This pattern may become clearer as the year progresses, but sufficient strengths are already

in evidence that an increase of 10 per cent would appear to be both reasonable and consistent with the other estimates.

An increase of 8 per cent has been provided for income of non-farm unincorporated business.

During 1955, cash income from grains continued to decline from the peak reached in the 1952-53 crop year. Cash income from other sources remained roughly unchanged from the 1954 level, which was the highest since 1951. However, the larger grain crop in 1955 contributed to an increase in agricultural net income and production, with a related increase of grain on farms. For 1956, higher current grain export markets are likely to lead to some increase in farmers marketings of grains. It is possible that the acreage seeded in 1956 will be higher than last year, and total grain production has been assumed to be only slightly below last year. Assumptions as regards farm income, therefore, allow for only a slight decline in net income and possibly some increase in cash income. On this basis, the farm sector would no longer exert the downward influence on general conditions, characteristic of the last few years.

The Labour Market

The decline in employment, associated with the 1953-54 recession, had ceased by the middle of 1954. In addition, average hours worked turned upward presumably reflecting a diminution in short-time shifts. The number of persons without jobs and seeking work (after allowance for seasonal factors) had increased quite steadily during the period of contraction in production and employment and reached a peak in August 1954. The increase in this figure from the summer low in 1954 to the winter peak in March 1955 was less than the usual seasonal increase, a point that is not sufficiently appreciated. As the recovery accelerated in the spring of 1955, employment rose sharply and the number of persons without jobs and seeking work declined more rapidly

than usual. From August 1954 to January 1956, the decline in the seasonally adjusted number of persons without jobs and seeking work has amounted to nearly 30 per cent. However, the level is still about two-thirds higher than the 1947-49 average. As has been emphasized in these reports in recent years this difference comes about primarily from the disappearance of the severe inflationary conditions of that period and the less insulated position of secondary manufacturing than prevailed during the earlier post-war years. The return of a more normal and balanced market pattern in recent years has been reflected in somewhat less tightness in the labour market.

In the light of the demand factors covered previously, a further increase in employment appears probable, in 1956. Table XI provides for an increase of 3 per cent in the number of persons with jobs. The increase in non-farm paid workers may be even greater, but this would be partially offset by a further decline in the number of persons engaged in agriculture. The number of persons without jobs and seeking work is expected to be less than during 1955, with 190,000 or about $3\frac{1}{2}$ per cent of the labour force being allowed for the full year. A somewhat greater decline than this is also possible.

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TABLE I

GROSS NATIONAL PRODUCT AND GROSS NATIONAL EXPENDITURE, 1955 AND 1956.
(millions of dollars)

Income:	1955	1956	Anticipated Change %	Expenditure:	1955	1956	Anticipated Change %	
							Value	Volume Price
Salaries, Wages and Supplementary Labour Income	12,861	14,000	+ 9	Personal Expenditure on Consumer Goods and Services	16,811	18,100	+ 8	+ 2
Military Pay and Allowances	394	425	+ 8	Defence Expenditures	1,760	1,800	+ 2	+ 3
Corporate Profits (ex-dividends paid abroad)	2,620	2,850	+ 9	Other Government Expenditure on Goods and Services	2,854	3,050	+ 7	+ 3
Other Investment Income	1,851	2,000	+ 8	Gross Domestic Investment:				
Accrued Net Farm Income	1,421	1,375	- 3	New Residential Construction	1,476	1,530	+ 4	+ 3
Net Income of Other Unincorporated Business	1,753	1,900	+ 8	New Non-Residential Construction	1,775	4,622	+19	+ 3
Net National Income at Factor Cost	20,900	22,800	+ 9	New Machinery and Equipment	2,017	+ 598		+ 6
Indirect Taxes less Subsidies	3,177	3,400	+ 7	Change in Inventories (Business Inventories only)	+450 (+257)			
Depreciation Allowances and Similar Business Costs	2,679	2,800	+ 5	Exports of Goods and Services	5,696	6,175	+ 8	+ 2
Residual Error of Estimate	- 132	-		Deduct: Imports of Goods and Services	-6,347	-7,125	+12	+ 2
Gross National Product at Market Prices	26,624	28,750	+ 8	Residual Error of Estimate	+ 132	-		
				Gross National Expenditure at Market Prices	26,624	28,750	+ 8	
				Deduct: Inventory Valuation Adjustment	- 167	- 300		
				Gross National Expenditure at Market Prices ex. i.v.a.	26,457	28,450	+ 8	+2.5

TABLE II

DISTRIBUTION OF INCOMES AND EXPENDITURES

BY MAIN SPENDING SECTORS, 1955 and 1956

(Millions of Dollars)

<u>Sector:</u>	Net current income adjusted for transfers between sectors		Expenditures on final goods and services		Surplus (+) or Deficit (-)	
	1955	1956	1955	1956	1955	1956
<u>BUSINESS:</u>						
Gross Business Saving	3,592	3,850				
Gross Domestic Investment			5,718	6,750		
Deficit					-2,126	-2,900
<u>CONSUMERS:</u>						
Personal Disposable Income	18,285	19,550				
Personal Expenditure on Consumer Goods and Services			16,811	18,100		
Net Personal Saving					+1,474	+1,450
<u>GOVERNMENT:</u>						
Total Revenue from taxation, social security contributions and investment income	7,646	8,400				
<u>Less:</u> Total transfer payments and subsidies	-2,763	-2,950				
Net Government Receipts	4,883	5,350				
Expenditure on Goods and Services			4,614	4,850		
Adjusted Surplus					+ 269	+ 500
<u>INTERNATIONAL:</u>						
Net Foreign Balance			-651	-950		
Net Borrowing from abroad					+ 651	+ 950
Residual error of estimate	-132		+132		- 264	
<u>Total Income and Expenditure</u>	26,624	28,750	26,624	28,750		

TABLE III

GROSS DOMESTIC INVESTMENT, 1955 and 1956

(Millions of Dollars)

Type of Expenditure	1955	1956	Anticipated Change %
Agriculture and Fishing	424	427	+ 1
Forestry	62	60	- 3
Mining	301	424	+41
Manufacturing	939	1,304	+39
Utilities	1,041	1,582	+52
Construction Industry	107	86	-20
Trade, Finance and Commercial	578	616	+ 7
Institutions	190	210	+11
Residential Construction	1,476	1,530	+ 4
Plus: Adjustment to 1955 machinery and equip- ment not allocated to industry	+150		
Less:-Portion of non-residential construction regarded as not realizable		-87	
<u>TOTAL:- Gross Domestic Investment in Durable Physical Assets</u>	5,268	6,152	+18
<u>Reconciliation with Private and Public Investment</u>			
Less: Adjustment to 1955 machinery and equipment	-150		
Plus: Government Housing	20	44	
Other Government Investment	1,092	1,246	
Total Private and Public Investment	6,230	7,529	+21
<u>Change in Inventories</u>			
Farm Inventories	+213	-102	
Grain in Commercial Channels	- 20	-	
Business Inventories	+257	+700	
<u>Total Change in Inventories</u>	+450	+598	

TABLE IV
PERSONAL EXPENDITURE ON CONSUMER GOODS AND SERVICES
1955 and 1956
(millions of dollars)

Type of Expenditure	1955	1956	Per Cent Change		
			Value	Volume	Price
Non-Durable Goods	9,493	10,198	+7	+6	+ 1
Durable Goods	1,873	2,040	+9	+6	+ 3
Total Goods	11,366	12,238	+8	+7	+ 1
Services	5,445	5,862	+8	+4	+ 4
Total Personal Expenditure on Consumer Goods and Services	16,811	18,100	+8	+6	+ 2

TABLE V

PERSONAL INCOME AND SAVINGS, 1955 and 1956

(Millions of Dollars)

<u>Income</u>	1955	1956
Wages, Salaries and Supplementary Labour Income	12,861	14,000
Less: Employer and Employee Contributions	-416	-450
Military Pay and Allowances	394	425
Income Received by Farm Operators	1,396	1,400
Income of Other Unincorporated Business	1,753	1,900
Interest, Dividends and Net Rental Income of Persons	2,010	2,200
<u>Transfer Payments to Persons:-</u>		
Old Age Security Payments	363	380
Family Allowances	378	395
Unemployment Insurance Payments	229	205
All other transfer payments and bad debt losses	798	845
Sub-total for Transfer Payments	1,768	1,825
<u>Total Personal Income</u>	<u>19,766</u>	<u>21,300</u>
<u>Expenditure:</u>		
Personal Direct Taxes		
Income Taxes	1,296	1,550
Other	185	200
Personal Expenditure on Consumer Goods and Services	16,811	18,100
Personal Savings	1,474	1,450
Total Personal Income	19,766	21,300
Personal Disposable Income	18,285	19,550
Personal Savings as a per cent of Disposable Income	8.1	8,0

TABLE VI

NET BALANCE OF INTERNATIONAL CURRENT ACCOUNT, 1955 and 1956

(millions of dollars)

	1955	1956
<u>Current Receipts:</u>		
Merchandise exports (adjusted)	4,335	4,725
Gold production available for export	155	155
Travel expenditures	329	360
Interest and dividends	160	165
Freight and shipping	359	400
Inheritances and immigrants' funds	86	85
All other current receipts	358	370
Total current receipts	5,782	6,260
<u>Current Payments:</u>		
Merchandise imports (adjusted)	4,520	5,150
Travel expenditures	441	480
Interest and dividends	467	500
Freight and shipping	395	445
Inheritances and emigrants' funds	100	105
Official contributions	22	30
All other current payments	502	520
Total current payments	6,447	7,230
<u>Net Current Account Balance:</u>		
Adjustment to National Accounts -		
Total current receipts (ex inheritances and immigrants' funds) as shown in Table I	5,696	6,175
Total current payments (ex inheritances and emigrants' funds as shown in Table I)	6,347	7,125

TABLE VII

Value of Principal Merchandise Exports 1955 and 1956
(millions of dollars)

Commodity Group	1955	1956
1. <u>Farm Products</u>		
Wheat and flour	413	500
Coarse grains	99	85
Other farm products	266	270
Sub-total	778	855
2. <u>Fish Products</u>	128	125
3. <u>Forest Products</u>		
Softwood lumber	367	375
Woodpulp	297	325
Newsprint	666	715
Other forest products	187	200
Sub-total	1,517	1,615
4. <u>Primary and Semi-Processed Metals and Minerals</u>		
Iron Ore	100	145
Primary iron and steel, ferro alloys	88	80
Aluminum	213	215
Copper	175	215
Nickel	215	225
Lead	37	40
Zinc	71	80
Asbestos	98	110
Crude petroleum	36	95
Other metals and minerals	161	175
Sub-total	1,194	1,380
5. <u>Chemicals(1)</u>	210	240
6. <u>Other Manufactured and Miscellaneous Goods</u>		
Whisky and beer	65	65
Farm machinery	76	85
Other machinery	36	35
Autos, trucks and parts	40	30
Other manufactured goods	238	250
Sub-total	455	465
<u>Total Cash Exports of Canadian Produce</u>	4,281	4,680
Re-exports	70	70
Gross Cash Exports	4,351	4,750

(1) Does not include all chemicals.

TABLE VIII

Value of Canadian Merchandise Exports by Areas, 1955 and 1956
(excluding re-exports and N.A.T.O. shipments)
(millions of dollars)

Area	1955	1956
United States	2,559	2,912
United Kingdom	769	755
Rest of Sterling Area	249	241
Western Europe	380	415
Latin America	169	179
Other	155	178
T o t a l	4,281	4,630

TABLE IX

Value of Principal Exports for Consumption 1955 and 1956

(millions of dollars)

Commodity Group	1955	1956
<u>Industrial Materials</u>		
Textile, leather and fur materials	320	355
Metals materials	380	450
Chemical materials	245	280
Other materials	305	340
Sub-total	1,250	1,425
<u>Investment Goods</u>		
Machinery and Parts	720	865
Electrical Machinery and Parts	223	265
Aircraft and Other Transport	275	300
Structural Steel, Pipe and Other		
Construction Materials	202	250
Sub-total	1,420	1,680
<u>Consumer Goods</u>		
Food, Beverages and Tobacco	457	475
Clothing, Household Textiles, Leather Goods	123	150
Passenger Autos and Parts	320	360
Household Durables and Semi-Durables	195	215
Other Manufactured Goods	340	375
Sub-total	1,435	1,575
<u>Coal, Petroleum and Products</u>	500	550
<u>Special Items</u>	106	120
Total Imports	4,711	5,350

TABLE X

Value of Canadian Merchandise Imports by Areas

(Including Direct Defence Imports)

1955 and 1956

(millions of dollars)

Area	1955	1956
United States	3,452	3,900
United Kingdom	401	450
Rest of Sterling Area	210	240
Western Europe and Colonies	230	265
Latin America	325	375
Other	93	120
T o t a l	4,711	5,350

TABLE XI

EMPLOYMENT, UNEMPLOYMENT AND THE LABOUR FORCE 1955 and 1956

(Thousands of Persons)

	1955	1956	Anticipated Change %
Paid Workers:			
Farm	106	105	-1.0
Non-Farm	3,996	4,170	+4.4
Own Accounts and No Pays:			
Farm	711	690	-3.0
Non-Farm	514	525	+2.1
Total Employed	5,327	5,490	+3.1
Out of Work and Seeking Work	231	190	-18.0
Civilian Labour Force	5,588	5,680	+ 2.2
Not in the Labour Force	4,971	5,060	+ 1.8
Total Civilian Non-Institutional Population 14 years of age and over	10,529	10,740	+ 2.0

APPENDIX

COMPARISONS OF THE PATTERN OF RECESSION AND RECOVERY

UNITED STATES AND CANADA, 1953 - 55

During the past thirty months, Canada and the United States passed through a period of moderate recession into a pronounced and widespread recovery which was still underway as 1956 began. This short note traces the path of this partial cycle as it affected the main economic aggregates in both countries, analyzes some of the major factors at work and points out significant similarities and differences in the two economies. Tentative suggestions are offered on the possible duration of the current upswing.

Looking first at the United States, overall economic activity reached a peak about mid-1953. The ensuing declines, which fell unevenly in duration and intensity on various economic sectors, came generally to an end near the middle of 1954. In the subsequent sixteen months, the American economy has displayed one of the strongest and most sustained advances of the post-war period.

The attached table reveals the changes that took place in relevant economic processes, measured from the business cycle peak in the second quarter of 1953 to the trough in the third quarter of 1954 and through to the fourth quarter of 1955. The turning points in individual activities, of course, do not exactly coincide with the general business turn, but do cluster closely about it. Moderate declines are evident in virtually all the main aggregates between the second quarter of 1953 and the third quarter of 1954; Gross National Product (excluding agriculture) fell 3 per cent, employment dropped 4 per cent, total industrial production, manufacturing production and employment and business investment in plant and equipment declined by 10 per cent; corporate profits fell by more than a quarter and unemployment more than doubled. In perspective, these drops represent the second mildest U. S. recession in the period 1920 to date.

Certain areas resisted the downward tendencies. Residential construction rose by 23 per cent. Personal income, bolstered by increased transfer payments and rising hourly earnings rose one per cent (having dipped only from October 1953 to January 1954). Consumer expenditures rose by nearly 3 per cent after pausing slightly in the fourth quarter of 1953.

In the United States the decline was precipitated by a decrease in defense expenditure, and in particular a sharp drop in the placement (and delivery) of defense procurement orders. In consequence, burdensome inventories led to cutbacks in production, employment and ultimately investment. These developments occurred at a time when the rate of increase in other sectors of final demand was beginning to slow down. The resistance in some of these areas, in particular the consumer sector, government non-defense spending and housing, acted to contain the overall drops to modest proportions. The drop in defense or inventories alone could more than account for the change in total output. Continued expansion elsewhere offset half of the potential fall.

By mid 1954, the drop in defense expenditures slowed, inventories began to appear more reasonable in relation to final sales, and consumers began to spend more freely once again. Thus encouraged, and regaining confidence as a result of the mildness of the decline, business began to step up its plans for new investment. The strength which appeared initially in automobiles and housing quickly became diffused throughout the economy.

By the spring of 1955, the American economy had surpassed its previous 1953 peak with virtually all spending sectors and industrial divisions participating in the recovery. The strong advance has continued through to the fourth quarter of 1955 as summarized in the attached table.

In Canada a somewhat similar development has taken

place. Business activity reached a peak at about the same time as in the U. S. - mid 1953. The subsequent declines, however, were of a smaller magnitude. Gross National Product (excluding agriculture) actually rose by a half of one per cent, having dipped for only two quarters. Industrial production fell by 2 per cent, employment by 3 per cent. Corporate profits declined by 12 per cent and investment in plant and equipment by 8.5 per cent. Even unemployment rose by a smaller amount - 97 per cent - than in the United States - 112 per cent.

On the expanding side, personal income continued to rise by 2.5 per cent, and consumer expenditures by 5.5 per cent. As in the United States, residential construction moved counter to the cycle, advancing by 14 per cent from mid 1953 to mid 1954.

The influences contributing to this contraction in Canada were, in many ways, similar to those in the United States. Declines in defense expenditures, and subsequently, inventory liquidation led to cutbacks in production and employment. In addition a shortfall in business spending for plant and equipment was noticeable as early as the third quarter of 1953. Finally, a below average grain crop contributed to the drops in overall output.

At the same time, however, certain other factors worked to reduce the extent and duration of the recession in Canada. An important factor moderating the domestic effects of short term demand changes is the volatile behaviour of merchandise imports. Reflecting this traditional pattern, the inventory shift was felt to a large degree in imports, which fell by 12 per cent, rather than in domestic production. Advances in consumer and government non-defense spending continued to be more marked in Canada. The net result was that the portents of recovery began to show somewhat sooner in Canada, although the pace did not quicken until the U. S. economy turned in mid 1954.

Once this occurred, the advance in Canada carried business above the 1953 peaks before the end of 1954 and the upswing has continued with but little abatement through the end of 1955. By the year end, total output excluding agriculture was nearly 14 per cent above the previous 1953 peak, compared to 9 per cent for the United States.

In summary, the timing of the recession and recovery in the North American economies was almost identical. In the U. S. the declines were the mildest (but one, 1926-27) during 35 years, and the magnitudes of the decreases in Canada were half those of the U. S. The strength of the recovery in both countries is in line with expectations in a longer historical comparison, although the increases 1955 over 1954 are striking in comparison with other post-war years.

The main body of this document has dealt fully with the outlook for 1956. Viewed in terms of the business cycle analysis of the last 30 years, the direction and magnitude of the changes appear most reasonable. Few of the seeds of recession, which were apparent in early 1953, can be discerned in the current picture. While declines in activities which customarily lead the business cycle may appear as the year progresses, it must be remembered that the margin of that lead may be as long as twelve months. If excesses relating to the building of business stocks can be avoided, the major aggregates of economic activity should continue upward throughout the year.

APPENDIX TABLE I

SEASONALLY ADJUSTED INDICATORS IN CANADA AND THE UNITED STATES

	C A N A D A		UNITED STATES	
	Per Cent Change		Per Cent Change	
	3Q 1954	4Q 1955	3Q 1954	4Q 1955
	2Q 1953	3Q 1954	2Q 1953	3Q 1954
QUARTERLY SERIES				
1. Gross National Product Ex. Agriculture	+ 1.1	+ 9.4	- 2.8	+11.2
2. Residential Construction	+14.1	+35.7	+ 23.0	+ 8.0
3. Non-Residential Construction, Plant & Equipment	- 9.5	+21.9	- 10.5	+15.5
4. Consumer Expenditures	+ 6.1	+ 8.2	+ 2.8	+ 8.1
5. Business Inventory Change	(-968) ^d	(+996) ^d	(-11.2) ^d	(+10.2) ^d
6. Corporate Profits (before taxes)	-12.4	+40.0	- 27.0	+33.0
7. Personal Income (ex. farm)	+ 3.2	+10.1	+ 1.3	+ 9.1
MONTHLY SERIES ^(a)				
1. Total Employment - (Non-Agricultural)	- 3.2	+ 4.0	- 3.7 ^b	+ 4.3 ^b
2. Manufacturing Employment	- 5.8	+ 4.0	- 10.1	+ 7.9
3. Average Hours Worked - Manufacturing	- 1.4	+ 1.0	- 2.2 ^c	+ 4.0 ^c
4. Average Hourly Earnings - (Manufacturing)	+ 3.8	+ 3.6	+ 1.7 ^c	+ 6.7 ^c
5. Unemployment	+97.1	-26.7	+112.1	-18.7
6. Industrial Production - Total	- 1.8	+12.5	- 9.5	+16.7
7. Industrial Production - Manufactures	- 4.8	+10.7	- 9.6	+16.0
8. " Durables	-10.6	+16.1	- 13.3	+18.8
9. " Non-Durables	- .4	+ 7.1	- 5.0	+13.5
10. Exports (Physical Volume)	- 9.7	+ 9.3	-	-
11. Imports (Physical Volume)	-11.9	+26.0	-	-
12. Manufactures Inventories Book Value	- 4.8	+ 3.1	- 7.3	+ 5.8

(a) 2nd Q 1953 = 3 month period centered on July
 3rd Q 1954 = 3 months centered on August
 4th Q 1955 = 3 most recent months of 1955

(b) Employees in Non-Agricultural establishments

(c) Not seasonally adjusted

(d) Dollar Value change

